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ABSTRACT

Federal policies toward higher education and their interaction (or lack of interaction) with state policies are described. Characterized are the differing historical roles played by the state and federal governments in shaping American higher education. Administrative arrangements, types, and dimensions of federal funding for students and institutions are outlined, along with the trends and prospects for such support during the 1980s. The discussion or state and federal roles examines federal programs in terms of bypassing the states, the types and dimensions of federal support, federal regulation, and some assumptions about the 1980s. The section on student aid focuses on: the dilemmas caused by the expansion of federal programs, state responses, expansion of state aid, the creation of no-need awards, the shift in focus to the private sector, cutbacks, changing features of the federal/state partnership, enrollment shifts, and the reauthorization of the Higher Education Act. Federal funds and state prerogatives are discussed with focus on the federal budgetary outlook, fiscal control and the issue of reappropriation, and the status of education in the federal establishment. Among the conclusions are: the principal object of federal funding will remain the individual student; federal dollars for the most part will not wind their way through the states; and key decisions affecting colleges and universities will be made by or at least within the states, not by the federal government. (LC)

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The Federal Government, the States, and Higher Education: Issues for the 1980s

Lawrence E. Gladieux
Janet S. Hansen
with
Charles R. Byce

U.S. DEPARTMENT OF HEALTH
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The Washington Office of the College Board conducts research on public policy issues in education, with an emphasis on postsecondary finance and the evaluation of programs designed to broaden access and choice in higher education. Legislative and policy analyses are shared with the membership of the College Board, state and federal policymakers, and other researchers.

Grants from the Ford Foundation have enabled the office to focus particular attention on the interaction of federal and state student assistance policies.

This study was prepared at the request of the National Conference of State Legislatures (NCSL) as part of a project, funded by the National Institute of Education (NIE), designed to help state legislators concerned with problems of financing higher education in the 1980s. NCSL plans to publish a handbook on the subject in 1981, including a version of this paper by the Washington Office of the College Board.

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Summary

Constitutionally and historically, the primary governmental responsibility for higher education in America has rested with the states. The federal role has been secondary, though nonetheless substantial in particular periods and areas, such as the land-grant college movement in the nineteenth century, the post-World War II GI Bill, research support in recent decades, and, since the mid-1960s, student assistance to equalize educational opportunity.

The federal government now spends about $15 billion annually on postsecondary education: $9 billion to students to help them meet college costs, $2 billion to institutions for a variety of programs, and $4 billion to pay for research at universities.

For the most part, federal dollars go directly to individuals and institutions rather than to state governments as intermediaries. Federal and state policies toward higher education are largely made independently of one another; and federal policy itself is fragmented, with only about one-fourth of Washington's estimated 400 postsecondary programs and less than one-third of all federal postsecondary expenditures centralized in the recently established U.S. Department of Education. Money—and accompanying regulations—thus flow from a variety of federal agencies.

This overall pattern will likely continue in the 1980s, a decade that poses difficult problems for postsecondary education because of population changes and fiscal restraints. Governmental policymaking for higher education can be expected along the following lines:

- The key decisions affecting colleges and universities will be made by, or at least within, the states, not by the federal government.
- General federal aid to institutions is not likely, although the federal government may recognize and help to shore up institutions in particular areas of need, such as renovation of aging physical facilities.
- The federal government will direct particular attention to maintaining the capacity and quality of research in the universities; a number of emerging problems need to be addressed, such as the importance of insuring an adequate flow of young scholars into the academic ranks of major research institutions.
- There will be continued protest about the burden of federal requirements on colleges and universities, but progress toward "deregulation" will be incremental; the problem will have to be dealt with agency by agency, issue by issue, case by case.
- Federal dollars will continue to wend their way through various channels to students and colleges, but not for the most part by way of the states.
- The principal object of federal funding will remain the individual student.

Federal student aid policies will raise many issues for states, which are themselves quite heavily committed to this kind of assistance. Some states have a much longer history in student financial assistance than the federal government, though federal expenditures now dominate the student aid system. Current appropriations for the major federal programs of need-tested aid to students total close to $4 billion, compared to state funding of something over $1 billion.

Federal-state relations in the student aid arena have become strained in recent years by two developments. First, the explosive growth of the federal Basic Educational Opportunity Grants (recently renamed Pell Grants), a nationally administered program, tends to give the federal government increasing influence over the entire aid system, including state and institutional programs. Second, mixed signals about federal plans for student loans have left states confused about the future of their own loan guarantee agencies.

States face a number of dilemmas as they adjust to federal student aid expansion. State policymakers must ask themselves how much additional aid students need above that provided by federal programs. State responses to date have included:

- coordination with federal programs;
- expansion of state scholarship assistance;
- creation of "no-need" awards for students;
- cutbacks in state grant aid; and
- a shift in state aid toward students in private colleges (insuring student "choice").

Some observers have worried that states may also be increasing tuitions in public institutions to "cap-

ture" federal student aid dollars, though there is little evidence of this at present.

One uncertainty for states has been the outcome of the 1980 congressional reauthorization of the Higher Education Act. Even though Congress has now authorized more generous student benefits, the reality of budgets may not match the promise of the legislation. The legislation also attempts to consolidate and simplify operating procedures in federal assistance programs, with unclear implications for state policies.

A question mark hangs over the entire budget process in Washington. Research expenditures may grow because of increasing concern over America's competitive technological position in the world, but student aid spending could plateau after the enormous increases of the 1970s. The budget squeeze in student aid is likely to be aggravated by the rapid growth in mandatory costs of the Guaranteed Student Loan program, which could drain resources from federal need-based programs into subsidies for loans that are not based on the financial need of borrowers.

Frustration with the complexities and distortions of intergovernmental aid has led some legislatures in recent years to "reappropriate" or otherwise monitor federal funds flowing into the states. State legislatures will have to take care not to jeopardize federal student aid funds by imposing pro forma review processes. Student assistance is at the heart of equal access and opportunity for individuals. The timing of such assistance is critical. Research support to higher education institutions and faculty is also appropriately exempted or treated specially, linked as it is to national research agenda and policy objectives.

Finally, what are the implications of the administrative restructuring of education programs in Washington? Education has recently been elevated to cabinet status in the executive branch, only to face reappraisal and possible reorganization once again under a newly elected Administration.

Realism should temper expectations for consolidating or "rationalizing" federal activities in education through bureaucratic reshuffling. On balance, the new U.S. Department of Education is not apt substantially to alter intergovernmental relations in financing and governing education. The department is not in a position to bring about a single, coherent set of federal policies toward education, nor will it be able to streamline regulatory and funding practices affecting education that stem from a variety of federal laws and agencies.

Whatever the fate of the new department, a continued pattern of decentralized, fragmented support is likely to characterize federal involvement in higher education. Such support will not be tidy or without headaches for colleges and states. But the pattern serves a range of national purposes, and it better serves to protect academic independence and diversity than would a monolithic national policy or plan.

Introduction

States, rather than the federal government, have the primary governmental responsibility for higher learning in America. Yet Washington contributes significantly to financing colleges and universities, providing close to one-fourth of the total national bill for postsecondary education.[1] In the process, agencies of the federal government also impose a variety of requirements, some costly, on institutions of higher education. The federal impact on the campuses is substantial, it is diverse, and it has important implications for the states. This study explores these implications.

During the 1970s, many state legislatures devoted considerable attention to school finance reform. During the 1980s, state legislatures are likely to be increasingly concerned with higher education finance as an era of population decline finally arrives on the campuses and competition for enrollments and resources intensifies among all types of postsecondary institutions. States have relatively little control over federal funds for higher education. But the patterns of support flowing from Washington, as well as the ramifications of federal regulations, are important for state policymakers to recognize as they come to grips with higher education planning and budgeting in the current decade.

This paper describes federal policies toward higher education and their interaction (or lack of

1. This estimate is derived from analysis by the National Commission on Financing Postsecondary Education, *Financing Postsecondary Education in the United States*. Washington, D.C.: Government Printing Office, December, 1973. The analysis takes into account all forms of financing, including parental support and student aid from public and private sources. Other estimates reflect primarily institutional financing and show a smaller federal contribution. For example, the National Center for Education Statistics publishes data on current fund revenues of postsecondary institutions, about 15 percent of which are accounted for by federal payments.

interaction) with state policies. After characterizing the differing historical roles played by the state and federal governments in shaping American higher education, it outlines the administrative arrangements, types, and dimensions of federal funding for students and institutions, and the trends and prospects for such support during the 1980s. The discussion then centers on direct student assistance, where federal activity has increased most rapidly and recent developments pose important policy questions for many states. The paper concludes with a look at budgetary constraints and some observations on fiscal federalism in postsecondary education.

State and Federal Roles: Past, Present, Future

That the states have the basic responsibility for higher education—indeed, for education at all levels—is an American tradition. Historically, the Tenth Amendment and the fact that "education" is nowhere mentioned in the U.S. Constitution pointed toward a secondary role for the federal government in this field. While some of the Founding Fathers urged a national system of education run by the central government, the majority favored state, local, and private control, perhaps with a national university to cap the system. All proposals to establish such a university in the capital city failed, despite the fervent support of George Washington and several of his successors in the presidency, and to this day the federal government does not directly sponsor institutions of higher learning apart from the military academies and a few other specialized institutions. Nevertheless, early federal policy was important in promoting higher education as an adjunct of western migration and public land development in the late eighteenth and nineteenth centuries, and the Morrill Land-Grant College Act of 1862 was instrumental in founding what are now some of the nation's great public, as well as private, universities.[2]

The federal investment in university-based research and development boomed following World War II; Congress in the 1960s funded a variety of categorical aids for postsecondary education; and, in the 1970s, the federal government became the largest source of direct aid to individual students for financing their college costs. But fundamentally federal expenditures have remained supplementary to state and private support of higher learning. Terry Sanford, former governor of North Carolina and now president of Duke University, once put it this way:

> The money for the extras came from the national funds. . . . This is the glamour money. . . . It is needed, it has improved the quality. . . . It is proper to remember, however, for all the advantages brought by the extras, the train was put on the track in the first place by the states, and continues to be moved by state fuel and engineers.[3]

Over the past two centuries the states have moved with varying speeds and approaches to create and expand public systems of higher education and, more recently, to assist (or purchase educational services from) private colleges and universities. Today, the major public support of postsecondary institutions continues to come from the states. Figure 1 illustrates the proportionate contributions of the different levels of government to public financing of higher education (for the most part excluding student aid). The states now provide 65 percent of governmental revenues to colleges and universities, more than twice the federal share.

The traditional division of responsibilities between the federal and state governments was reaffirmed in the early 1970s, when Congress debated and ultimately rejected proposals for general-purpose federal institutional aid. In passing the 1972 amendments to the Higher Education Act:

> Congress pulled up short of a plan that amounted to federal revenue sharing with institutions of higher education—across-the-board general operating support distributed on the basis of enrollments. It was unwilling to underwrite the entire system without reference to any national objective other than preserving and strengthening educational institutions. . . . The responsibility for general support of institutions, it was decided, should continue to rest with the States.[4]

The federal government would continue to aid higher education indirectly, by supporting programs in areas of special national concern.

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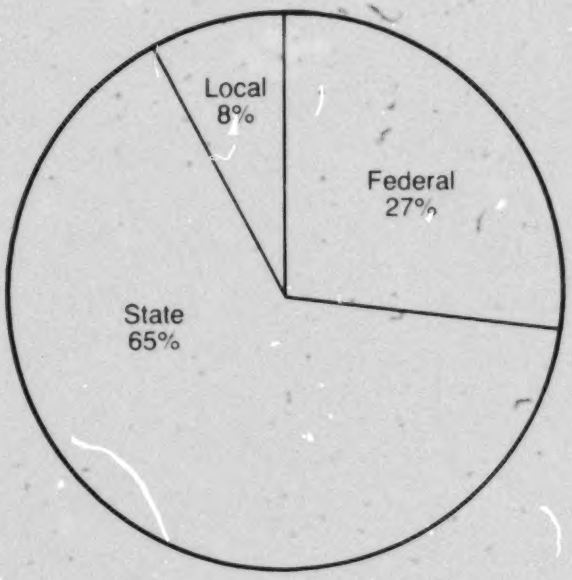
2. For the historical development of federal involvement with higher education, see George N. Rainsford, *Congress and Higher Education in the Nineteenth Century*. Knoxville, Tenn.: University of Tennessee Press, 1972.
3. Quoted in Thomas R. Wolanin and Lawrence E. Gladieux, "The Political Culture of a Policy Arena," in Matthew Holden, Jr. and Dennis L. Dresang, eds., *What Government Does*. Beverly Hills, Calif.: Sage Publications, 1975, pp. 184-5.
4. Lawrence E. Gladieux and Thomas R. Wolanin, *Congress and the Colleges: The National Politics of Higher Education*. Lexington, Mass.: Lexington Books, 1976, p. 226.

FIGURE 1. Governmental Sources of Current Fund Revenues to Higher Education Institutions, FY 1978



Source: U.S. Department of Health, Education, and Welfare, National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education, 1978*, based on data gathered in the Higher Education General Information Survey (HEGIS).

Instead of aid to institutions, the 1972 amendments established aid to students, based on financial need, as the primary mechanism of federal support for higher education. A central objective of federal policy came into clear focus: to broaden and equalize opportunity by helping to ensure that students had the resources to obtain a college education best suited to their abilities and interests. The 1972 legislation created the Basic Educational Opportunity Grant (BEOG) program, recently renamed Pell Grants, as a floor of direct support for all needy students and State Student Incentive Grants (SSIG) to provide federal matching for need-based state scholarship programs. BEOG and SSIG rounded out the federal commitment to student aid, which in the course of the 1960s had already come to include the National Defense Student Loan (NDSL), College Work-Study (CWS), Guaranteed Student Loan (GSL), and (as renamed in 1972) Supplemental Educational Opportunity Grant (SEOG) programs. The "consumer not the conduit" of higher education was to be the major focus of federal support, in the phrase of Senator Claiborne Pell of Rhode Island, one of the chief sponsors of the 1972 law.

This is not to say that the federal government has been totally unconcerned with the health and capacity of institutions. Certain types of institutions have been the object of special federal attention because of their particular contributions to the national interest. The major research and graduate-oriented universities, particularly their medical schools, are one such category. They draw heavily on grants and contracts from multiple federal agencies. The historically black colleges are another, many of them drawing substantial operating support as "developing institutions" under Title III of the Higher Education Act. In 1972 Congress authorized federal assistance for the establishment and expansion of community colleges, though this provision was never funded and was allowed to lapse in the Education Amendments of 1980.

In addition, some of the black colleges and other institutions serving substantially low-income populations, notably independent institutions with little access to the state fisc, have become increasingly dependent on federal aid to their students—especially on BEOG. And the same is true of some proprietary postsecondary vocational schools, whose students make extensive use of the Guaranteed Student Loan program as well as of BEOG. Student aid in some measure is an indirect form of institutional subsidy, and the vigorous politics surrounding congressional reauthorization and revision of the student aid programs in 1980 attest to the high stakes involved for postsecondary institutions. Representatives of the various sectors—public and private, two-year and four-year institutions—struggled over scores of amendments to the allocation formulas, eligibility criteria, and definitions of student need that determine who gets what, where, and how from the several billion dollars now spent annually in student aid programs under Title IV of the Higher Education Act.

But the broad historical delineation of federal and state roles persists in the early 1980s: The states are still primarily responsible for maintaining the structure of higher education, mainly through the maintenance of systems of public colleges and universities. The federal government provides particular kinds of support to meet perceived national objectives, without distinguishing for the most part between public and nonpublic recipients of this support. The federal government purchases services (research), fills gaps (whether in college library support, foreign language and area studies, health professions development, or undergraduate science curricula), and channels the bulk of its aid directly to students rather than to institutions, with the aim of removing financial barriers facing individuals who aspire to higher education.

Federal Programs: Bypassing the States

States served as intermediaries under federal legislation for higher education in the nineteenth century. Proceeds from the sale of public lands provided endowments that helped the states establish and finance the early land-grant institutions, agricultural extension programs, and other forerunners of today's comprehensive colleges and universities. The federal grants to the states were broad and carried few restrictions.

Toward the beginning of the twentieth century the pattern began to change. Federal support became piecemeal and started going directly to the institutions themselves, not by way of the states. In recent decades, nearly all federal monies have been channeled to institutions (or to departments, schools, and faculty members within institutions) or to individual students.

Speechmakers sometimes refer to a federal-state "partnership" in supporting higher education, a phrase with meaning only in the general sense of the historical roles and governmental division of labor we have described. There is, in fact, little conscious meshing of funding purposes and patterns between the two levels of government. By and large the federal activity proceeds independently. As one observer has noted:

> With a few modest exceptions, federal postsecondary spending arrangements make no attempt to stimulate state spending, to compensate for differences in state wealth or effort, or to give state governments money to allot as they see fit.[5]

Nor, it might be added, would it be easy or even feasible to design a program or funding formula that would effectively achieve any combination of such objectives.

Some provisions of current higher education law recognize the states, but primarily in incidental ways. Several of the categorical programs authorized in the 1960s, such as college construction assistance and continuing education grants, called for a state commission or other responsible body to review institutional applications for funds. But states vary widely in the ways they have handled the federal program authorities, and, in many cases, the commissions have existed outside the purview of proper state legislative or executive authority. Moreover, some state commissions were established to administer federal programs that now either are no longer funded or are surviving on marginal appropriations. Under some of the federal student aid programs, statutory formulas (based on such factors as the national distribution of college enrollments or of high school graduates) first divide the available funds among the states, thence they are allocated to individual campuses that finally make the awards to students. But no state authority helps determine the institutional allocations or student awards.

The Education Amendments of 1972 introduced two new federal policies involving the states. One was the State Student Incentive Grant program, designed as a directly collaborative federal/state venture in higher education funding. However, the federal appropriation available for matching state scholarship funds remains small (currently $77 million), and tensions have strained the partnership, as many states chafe under the requirements that accompany the fairly small amounts of federal money.[6]

The other state-related innovation in the 1972 legislation was what came to be known as the "1202 Commissions." Section 1202 of the law authorized federal funds for comprehensive statewide planning for postsecondary education, to be conducted by a single state commission "broadly representative" of the public and the higher education community. Circumstances have limited the impact of Section 1202, however. Very little money has been appropriated; $2-3 million annually provides no more than a token amount per state. Moreover, the proposed federal rules implementing the provision created a storm of controversy. Representatives of public and private institutions alike, both as fearful of state domination as they are of federal control, generally opposed any reinforcement of statewide planning. Various state authorities were divided on the wisdom of specific federal rules concerning the designation of the appropriate state agency. A further attempt to clarify and strengthen the statewide planning provisions of the law has been enacted as part of the 1980 Higher Education Act reauthorization.

During the Nixon years, the idea of revenue sharing was in the air, and some advocated replacing the patchwork of federal education assistance with block grants to the states—with "special revenue sharing" for education. The Nixon Administration actually proposed, without success, such a lumping together of school aid programs. But there seemed little merit or feasibility in such an approach to federal higher education funding, and it was never seriously pursued.

It seems probable that the supplementary purposes of federal support will continue to be carried out directly in relation to students and institutions, for the most part bypassing the states.

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5. Chester E. Finn, Jr., "A Federal Policy for Higher Education?," *Alternative*, Vol. 8, No. 8, May 1975, pp. 18-19.
6. Indirectly, in the case of state institutions, states provide the matching funds required for institutional participation in certain federal programs—for example, National Direct Student Loans and College Work-Study.

Types and Dimensions of Federal Support

The federal government's sources of money for higher education are so decentralized and intermixed with other policy objectives that trying simply to enumerate the programs and to tally the total investment can be an accounting and definitional headache. It has been estimated that Washington sponsors over 400 programs, administered by some 25 separate agencies and cabinet-level departments, that provide some measure of support for postsecondary education. The annual dollar outlay is on the order of $15 billion.

A sampling suggests the far reaches of federal involvement:

> Purposes vary widely and include, for example, agricultural research, innovative approaches to the education of the handicapped, and training professionals in the study and control of water pollution. Students can receive financial assistance . . . if they are veterans or are willing to study in a field of special interest to the federal government, such as mental health, law enforcement, or urban mass transportation. Indians, Social Security beneficiaries, or persons related to miners with black-lung disease are eligible as students for special federal support. . . . The federal government even provides assistance "in-kind" to postsecondary institutions, ranging from loans of machine tools and dispersal of surplus government property to provision of films for educational purposes. . . .[7]

And not much change is in the offing. The newly created U.S. Department of Education consolidates only about one-fourth of the 400 programs and less than a third of total federal expenditures for higher education, not substantially more than were encompassed by the old Office of Education in the U. S. Department of Health, Education, and Welfare. The remaining programs and funds are still scattered across the federal scene, from the U.S. Department of Defense and the Veterans Administration to the U.S. Department of Agriculture, the National Aeronautics and Space Administration, and the Smithsonian Institution.

Table 1 shows trends over the past decade in the major types of federal support. Direct expenditures to students, which include the major programs of Veterans and Social Security education benefits as well as the need-tested student aid programs administered by the U.S. Department of Education (such as BEOG), have grown most quickly, reaching nearly $9 billion in 1980, an increase of 196 percent since 1972. In real terms, adjusted for inflation over the past decade, the increase in aid to students has been 50 percent. These figures include all payments to students, those that wind up in institutional coffers in the form of tuition and other charges, as well as those that go toward books and personal expenses. University-based research and development funding has expanded more slowly; in real terms, it has increased 32 percent. Direct payments to institutions have declined by about 34 percent in real terms.

Not included in Table 1 are so-called tax expenditures, a recent addition to federal budget accounting procedures. In the case of higher education, this category would include the estimated value to institutions and students of provisions in the federal income tax code, such as deductibility of contributions to colleges, the nontaxability of scholarships and fellowships, and the personal exemption that parents may claim for students aged 19 and over. The estimated value to higher education is the amount of federal revenue that would be collected but for such provisions, an amount that in 1980 is about $2.8 billion.

Table 2 shows the distribution of federal expenditures by state.

Federal Regulation: The Backdoor Issue

As federal activities have increased and diversified over the past two decades, few institutions have refused to take funds from Washington. Some independent, religiously affiliated colleges, fearing federal control, continue to resist the "taint" of federal money. But many other institutions that have accepted the money have come by experience to learn that federal patronage does indeed exact a price. College and university administrators are increasingly restive under the volume of government mandates. In addition to the usual reporting and other rules of accountability to federal agencies, institutions seem to face a growing list of nondiscrimination, affirmative action, and assorted directives, accompanied by legalistic and sometimes (as perceived by campus officials) cumbersome or arbitrary enforcement procedures. In some cases, the burden of federal regulation is magnified by the existence of duplicative, but different, state rules and reporting requirements.

One university president argues that the effect of overlapping, often conflicting government regulations "amounts to something like confiscatory behaviour because of the amount of time and money required."[8] No movement is afoot in higher

7. Pamela Christoffel and Lois Rice, *Federal Policy Issues and Data Needs in Postsecondary Education: Report to the National Center for Education Statistics* Washington, D.C.: U.S. Department of Health, Education, and Welfare, 1975, pp. 4-5.

8. Quoted in Lawrence E. Gladieux and Thomas R. Wolanin, "Federal Politics," in David W. Breneman and Chester E. Finn, Jr., eds., *Public Policy and Private Higher Education.* Washington, D.C.: The Brookings Institution, 1978, p. 223.

TABLE 1. Federal Outlays to Postsecondary Education

FY 1972, FY 1975, and FY 1980 (in millions of dollars)

Program	1972	1975	1980 (est.)	% Change 1972-1980 (Current Dollars)	% Change 1972-1980 (1972 Dollars)
DIRECT EXPENDITURES TO STUDENTS					
U.S. Department of Education student aid programs (BEOG, SEOG, SSIG, NDSL, CWS, and GSL)	$ 943	$ 1,587	$ 5,505		
Social Security education benefits	521	840	1,565		
Veterans benefits	1,436	3,479	1,757		
Other student assistance	102	65	45		
SUBTOTAL	$3,002	$ 5,971	$ 8,872	196%	50%
DIRECT EXPENDITURES TO INSTITUTIONS					
Programs for disadvantaged students and developing institutions	$ 94	$ 180	$ 261		
Occupational and vocational	132	137	226		
Military academies	208	239	326		
Special institutions	56	89	193		
Construction and facilities	265	29	131		
Health resources	456	662	370		
Scientific training programs	328	298	266		
Other institutional assistance	253	481	275		
SUBTOTAL	$1,792	$ 2,115	$ 2,048	13%	−34%
RESEARCH AND DEVELOPMENT	$1,671	$ 2,228	$ 3,827	129%	32%
TOTAL	$6,465	$10,314	$14,747	128%	18%

Note: Between 1972 and 1980, the Consumer Price Index increased 98 percent and the Higher Education Price Index, a special measure of the behavior of costs of higher education institutions developed by the National Institute of Education, increased 73 percent. In order to adjust for inflation and calculate the change in real terms, we used the CPI in the case of direct expenditures to students and tax expenditures and the Higher Education Price Index in the case of expenditures to institutions and for research and development.

Source: Based on data analysis derived from the *Budget of the United States Government* and the *Special Analyses of the Budget*, 1974-1980, as well as analysis by the Economic and Finance Unit, American Council on Education.

education to spurn needed federal dollars for institutions or students, but higher education's leaders are as concerned these days with the costs imposed through the backdoor of regulation as they are with the frontdoor benefits of federal largesse.

Studies by the American Council on Education and by individual institutions have tried to document the costs of compliance with federal rules.[9] Ohio State University for example, has estimated that it spends annually $50,000 to comply with waste disposal regulations of the Environmental Protection Agency, $250,000 to carry out procedures regulating the privacy of student records (Buckley Amendment), and $885,000 over two recent years to meet Occupational Safety and

9. See Carol Van Alstyne and Sharon F. Coldren, *The Costs of Implementing Federally Mandated Social Programs at Colleges and Universities.* Washington, D.C.: American Council on Education, 1976.

Health Act (OSHA) rules. The University of Maryland spent an estimated $1 million on a single affirmative action case, including extensive litigation.[10]

Some say there is a need to regulate the regulators. The Carnegie Council on Policy Studies in Higher Education has called for preparation of a "regulatory impact statement" before the issuance of any new set of regulations affecting higher education. No simple solution, however, has been found.

10. *The Entangling Web: Federal Regulation of Colleges and Universities.* Washington, D.C.: Editorial Projects for Education, 1979, pp. 14-15.

TABLE 2. Federal Funds to Postsecondary Education, FY 1979

	Direct Expenditures to Students	Direct Expenditures to Institutions	Research and Development Expenditures	Total
Alabama	$132,263	$ 31,616	$ 40,956	$ 204,835
Alaska	9,242	4,128	21,615	34,985
Arizona	101,289	17,496	33,933	152,718
Arkansas	60,039	18,532	12,772	91,343
California	748,067	130,395	524,624	1,403,086
Colorado	94,118	131,163	71,059	296,340
Connecticut	123,651	22,760	79,222	225,633
Delaware	23,512	5,892	7,752	37,156
District of Columbia	96,105	178,458	45,142	319,705
Florida	247,994	38,490	70,284	356,768
Georgia	133,462	36,366	52,115	221,943
Hawaii	37,885	9,720	25,562	73,167
Idaho	22,559	4,561	5,573	32,693
Illinois	318,179	64,682	154,142	537,003
Indiana	131,777	27,479	59,672	218,928
Iowa	81,036	22,139	37,093	140,268
Kansas	76,783	18,875	24,564	120,222
Kentucky	91,196	28,863	18,891	138,950
Louisiana	105,763	25,379	26,877	158,019
Maine	46,218	7,747	5,592	59,557
Maryland	118,951	121,115	194,696	434,762
Massachusetts	257,743	56,185	417,088	731,016
Michigan	237,855	51,048	113,586	402,489
Minnesota	138,186	29,216	65,860	233,262
Mississippi	85,660	28,149	15,522	129,331
Missouri	140,310	32,536	71,630	244,476
Montana	24,372	8,439	5,559	38,370
Nebraska	61,324	12,660	13,761	87,745
Nevada	17,482	3,798	3,966	25,246
New Hampshire	32,233	5,153	13,603	50,989
New Jersey	239,337	29,745	46,449	315,531
New Mexico	55,205	15,001	35,012	105,218
New York	760,671	236,661	397,935	1,395,267
North Carolina	178,417	58,879	94,516	331,812
North Dakota	31,626	8,235	5,590	45,451
Ohio	261,107	58,906	101,597	421,610
Oklahoma	93,323	19,833	17,140	130,296
Oregon	84,444	14,635	47,204	146,283
Pennsylvania	371,262	65,041	198,072	634,375
Rhode Island	933	2,860	21,860	25,653
South Carolina	102,664	23,932	15,928	142,524

TABLE 2. *(Continued)*

	Direct Expenditures to Students	Direct Expenditures to Institutions	Research and Development Expenditures	Total
South Dakota	33,537	8,426	4,251	46,214
Tennessee	128,663	42,808	57,937	229,408
Texas	389,672	74,791	192,905	662,068
Utah	38,758	10,232	46,145	95,135
Vermont	23,368	5,809	12,380	41,557
Virginia	169,104	36,875	56,555	262,534
Washington	137,467	28,037	92,423	165,504
West Virginia	49,091	13,783	7,434	70,308
Wisconsin	147,743	34,845	93,729	276,317
Wyoming	9,694	2,827	4,503	17,024

Note: Some federal programs, such as vocational education, support elementary/secondary as well as postsecondary activities. The postsecondary share of expenditures in such programs is estimated.

Sources: Based on data obtained from the U.S. Department of Education, U.S. Department of Health and Human Services, the National Science Foundation, and the U.S. Department of Defense.

For the states, the effect of federal regulation of colleges and universities may be indirect but still potentially sizable. The cost of compliance by public institutions comes, one way or another, out of state budgets. And there are major fiscal liabilities implicit in recent social mandates passed by Congress, the dimensions of which have not yet become fully apparent. For example, equality of campus opportunities for women, as called for under Title IX regulations, could force athletic budgets much higher in coming years, depending upon how the issues are ultimately interpreted and litigated. Regulations for the handicapped ("Section 504") have major cost implications. Necessary alterations of physical facilities, it is estimated, could cost higher education as much as $2 billion. Added instructional and other costs are likely. There are already signs of increased demands on student financial aid budgets as more handicapped students enter postsecondary education and find that vocational rehabilitation funds do not always meet their needs.

Several states have been feeling very directly the effects of federal desegregation enforcement as it affects colleges under Title VI of the Civil Rights Act. The *Adams* case will surely alter the financing and character of public higher education systems in the six affected states.[11]

The 1980s: Some Assumptions

We foresee the following in governmental policymaking for higher education in the 1980s.

The key decisions in the period ahead will be made by, or at least within, the states, not by the federal government. The Carnegie Council among others recently asserted this point in its report, *Three Thousand Futures*, which argues that each college and university in the country will fare differently as higher education weathers the long-anticipated hard times of the 1980s and that the primary action in government policymaking will occur at the state level.[12] The landscape of postsecondary education, the division of responsibilities among different types of institutions, the probable adjustments that will need to be made to deal with excess capacity in higher education systems, the assurance of educational quality—all of these fundamental matters will and should be decided by a combination of market forces and action by state planning and governing bodies.

The federal government will not directly intervene in these matters, nor will federal policymakers be especially tempted to try, for many of the decisions shaping and reshaping higher education in the 1980s are going to be politically painful. History and the diverse conditions of 50 state systems of

11. *Adams* v. *Hufstedler* is the latest in a series of suits going back to 1970, in which the NAACP Legal Defense Fund sought to end segregated systems of postsecondary education in 10 states. Under *Adams* six states were ordered to develop desegregation plans acceptable to the U.S. Department of Health, Education, and Welfare (now the U.S. Department of Education) or face a cutoff of federal funds.

12. Carnegie Council of Policy Studies in Higher Education, *Three Thousand Futures: The Next Twenty Years for Higher Education.* San Francisco: Jossey-Bass, 1980. See also David W. Breneman and Susan C. Nelson, "Education and Training," in Joseph A. Pechman, ed., *Setting National Priorities: Agenda for the 1980s.* Washington, D.C.: The Brookings Institution, 1980.

higher education dictate that the major questions be resolved at the state level.

General federal aid to institutions is not likely, although the federal government may recognize and help to bolster institutions in particular areas of need, such as renovation of aging physical facilities. To say that the primary action will be at the state level is not to say that higher education's leadership will ignore Washington in the search for assistance. There will be renewed pressures from the national associations of colleges and universities for some form of broad institutional support, or for a bail-out authority to rescue individual or particular types of institutions whose survival is reportedly threatened. But the odds are still against such departures in federal policy.

More conceivable is a revival of special types of federal aid to deal with documented problems. Notwithstanding expected enrollment declines, parts of higher education's physical plant will need to be replaced or renovated in the next 20 years (and alterations to meet the requirements of legislation for the handicapped, as noted, are also in store). Some version of Title VII (college construction assistance) of the Higher Education Act, still on the books but unfunded in recent years, might be viable in the 1980s.

The federal government in the 1980s will direct attention to maintaining the capacity and quality of research in the universities. Federal support of basic research in the national interest will and should continue. A number of emerging problems should be addressed, particularly the importance of insuring an adequate flow of young scientists and scholars into the academic ranks of the major research institutions.

There will be continued protest about the burden of federal requirements on colleges and universities, but the problem will have to be dealt with agency by agency, issue by issue, case by case. The problem of government regulation cannot be wished or complained away. As one observer advises:

> Don't believe any politician who promises "deregulation." . . . Regulation is here to stay, in a growing variety of forms. And in one respect, this fact is a tribute to the special place of higher education in our society. In its search for solutions to complex national problems, the government inevitably turns to the expertise and research capabilities of the colleges and universities. . . . And with each new set of relationships comes a new set of regulations.[13]

Federal agencies can do much to lighten the burden by consolidating reporting and enforcement procedures. For their part, representatives of higher education need to be concrete, rather than rhetorical, in pointing out where rules and mechanisms of enforcement are inappropriate to higher education and where the costs, monetary and otherwise, to the academic enterprise outweigh the social benefits of regulation. But as long as government agencies insist on accountability for the proper expenditure of funds and as long as congressional mandates addressing a range of social problems remain in force, there will be complexity and tensions in the relationships between the federal government and higher education. And there will be budgetary implications for the institutions and indirectly for the states.

Federal dollars will continue to flow through various channels to students and colleges, but not for the most part by way of the states. As in the past, the discrete and supplemental types of support provided by the federal government will for the most part be routed directly to individuals or institutions, rather than through checkpoints at the state level.

The principal object of federal funding will remain the individual student. Federal student aid policies will raise many issues for states, many of which are themselves quite heavily committed to this kind of assistance. Unlike support of postsecondary institutions (which is primarily a state and private responsibility) and research (more a federal than a state interest), student aid is an area where both the federal and state governments have assumed significant responsibility. For the most part, the two levels of government have developed their student aid programs independently. Having expanded dramatically in the 1970s, however, these programs will come under closer scrutiny in the 1980s. The interaction of policies and programs will cause more concern because of the large expenditures involved, but it will pose different questions in each state. To these issues we turn in the next section.

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13. Charles B. Saunders, Jr., "Is Regulation Strangulation?" *College Board Review* No. 100, Summer 1976, p. 4.

Student Aid: The Uneasy Partnership

Washington's part in insuring equal opportunity for higher education by removing financial barriers to students is of fairly recent origin, as we have seen. States have a much longer history of providing financial aid to students. From their beginnings most public colleges and universities charged little or no tuition—an indirect form of aid for all enrolled students. Several states preceded the federal government in establishing direct student assistance programs. For example, New York created Regents Scholarships in 1913 and began a loan program in the 1950s. The five states with the largest need-based grant programs (New York, Pennsylvania, Illinois, New Jersey, and California represented about 65 percent of all state grant expenditures in 1979-80) can trace their efforts to 1960 or before. Most state programs, however, date from the same era as federal programs, the 1960s and 1970s.

Today federal and state governments provide more financial aid by far than institutional and private sources. The principal overlap, and our principal concern here, is in programs of general assistance for undergraduates in which eligibility is based on a measure of student (family) financial need.

As Table 3 shows, federal and state programs have burgeoned. Current appropriations for the major federal programs of need-tested aid to students total nearly $4 billion, compared to state funding of something over $1 billion. Included in the federal tally are the aid programs authorized under Title IV of the Higher Education Act, which are administered by the U.S. Department of Education.[14] For purposes of comparability with state figures, we exclude the costs of Guaranteed Student Loans, which (since 1978) are not based on need. It should be noted, however, that GSL costs are substantial (currently over $1.5 billion annually and growing) and the nondiscretionary expense of this program to the federal government could seriously erode future appropriations for the need-based aid programs.

The tally of federal student aid also excludes the entitlement programs under the GI Bill and the Social Security Act, and it leaves out a number of smaller programs, such as health-professions student

14. Also, we are discussing here programs primarily providing financial assistance to *undergraduate* students. Undergraduate grants and loans constitute the bulk of federal direct student aid programs, though graduate students may participate in some programs. Most graduate students who receive federal assistance, however, get research assistantships or traineeships that are part of federal research and development activities. Overall, federal support for graduate students has declined dramatically since the late 1960s.

TABLE 3. Federal and State Student Aid Funds

General Need-Based, Focused Primarily on Undergraduates (in millions of dollars)

	FY 1972	FY 1975	FY 1980 (est.)
Federal Programs			
BEOG	$ –	$ 356	$2,609
SEOG	210	240	340
SSIG	–	20	77
NDSL	286	321	329
CWS	272	420	550
Total—Federal Programs	$768	$1,357	$3,905
State Programs (less federal SSIG component)	$269	$ 421	$ 775

Notes: (1) State amounts reflect only need-based grant programs. No state work or loan programs are included. (2) Federal programs do not include the Guaranteed Student Loan program.

Source: For federal programs: U.S. Department of Education. For state programs: annual surveys of the National Association of State Scholarship and Grant Programs.

loans and grants.[15] The state total includes almost $800 million for comprehensive undergraduate need-based grant programs, plus an estimated $200-300 million in other grants, loans, and work-study, but does not include state appropriations (of unknown but probably significant size) to public institutions for institutionally awarded student assistance.

As always, such a comparison of aggregate federal and state funding disguises wide variations across the states. No state actually spends in its own direct student aid programs more than the federal student aid programs that flow into it, and many contribute only a small fraction of the amount from federal sources. Some states, however, make a substantial effort relative to federal dollars. Until very recently, New York and Illinois spent more in their grant programs than the federal government awarded in BEOGs to students in these states. Table 4 shows the distribution of federal and state student aid monies by state.

The biggest factor on the federal side has been the explosive growth of the BEOG program in the mid-1970s, followed by passage of the Middle-Income Student Assistance Act of 1978, which greatly broadened eligibility for federal grants as well as for loans. Not only has the expansion of BEOG pushed total federal spending well beyond total state effort in this area, but the nature of the BEOG program has increasingly tended to centralize the student aid process.

Nationwide procedures and standards, set in Washington, determine whether students are eligible for BEOG awards and how much they receive. The BEOG program's growth has made student aid a more salient issue in Congress and the executive branch, with the result that many policymakers want to extend BEOG application and eligibility rules to other federal programs, thinking this will foster simplicity and consistency. Thus magnified, BEOG has the potential for exerting enormous influence over the entire student aid system, a situation that could increase tensions between the federal and state partners (and institutions as well), particularly in those states that have big grant programs and long traditions of their own in directly aiding students.

Federal/state relations in the loan area have also been strained in recent years, largely because of mixed federal signals about what the responsibilities of states should be. The original legislation setting up the Guaranteed Student Loan program provided for federal reinsurance of state guaranteed loans, with direct federal insurance provided where state guarantees were absent. Federal legislation in the 1970s spurred the creation of state loan guarantee agencies; for example, the federal government offered bonuses and incentives to states that had such agencies. Recently, however, Washington's interest in continuing the partnership with states on student loans has been uncertain. Some of the loan proposals under congressional review in 1979 and 1980 seemingly posed a threat to state lending activities. Even though Congress ultimately did not create a national student loan bank as such, states have complained that their own efforts to get agencies underway in response to earlier federal encouragement have been hampered by uncertainty over future federal directions.

In this section we discuss three noteworthy aspects of the shifting federal/state partnership in student aid: (1) some of the dilemmas facing the states as they consider whether and how to adjust to new levels and patterns of federal spending; (2) the variety of changes in state programs in the wake of federal expansion, from further growth or targeting of new eligibility groups in some states to cutbacks in others; and (3) prospects for further change in light of pending federal issues with significant implications for states. This discussion is intended to give an idea of the questions and concerns that federal policies raise for states. We draw no conclusions. State postsecondary systems and financing patterns are so diverse that each state will have to decide for itself how to implement its version of the federal/state partnership in this important area.

Dilemmas Caused by the Expansion of Federal Programs

How much student aid is needed? Because BEOGs are supposed to be the foundation of the aid system and are often the first grants awarded to students, states (and institutions as well) are usually in the position of asking "how much *additional* aid do students need?" There are conceptual and practical problems in answering this question.[16] So far aggregate statistics on the financial need and aid available to individual students are insufficient for determining conclusively whether students are getting adequate assistance. Furthermore, how

15. GI Bill education benefits, which provided as much as $3 billion annually in postsecondary assistance in the mid-1970s, have been declining rapidly in recent years as the eligibility of Vietnam era veterans runs out. Social Security education benefits, which currently total over $1.5 billion a year, are extended to students, 18-21 years old, who are children of deceased, disabled, or retired Social Security beneficiaries.

16. See Susan Nelson, *Community Colleges and Their Share of Student Financial Aid*. New York: The College Board, 1980.

should financial need be defined? And how can state policymakers determine how much of the financial need of individual students is being satisfied by federal programs?

As federal spending has grown, it has become possible that in some states (especially those with generous state-grant programs) some students (especially those at low-cost institutions) may not need much more help than they are already receiving. In some states the combination of a BEOG and a state grant provides 80-90 percent of costs for some students in some institutions. But policymakers must be cautious in drawing conclusions. For very disadvantaged students, such funding may be necessary to ensure access to higher education.

State officials also face a difficult political dilemma in answering the question "how much student aid is enough?" Often they have, like the federal government, created student aid programs that benefit students in public as well as private institutions and that help low-income students in particular. If federal programs increasingly meet much of the need of low-income students in low-cost institutions, states may find their own assistance shifting toward middle-income students and/or those enrolled in relatively high-priced private institutions, especially if the state programs are also growing. Some state officials find such a shift acceptable, while others worry that it could threaten the political base of support for state programs.

Is the student aid system becoming too complex? The federal government supports three grant programs, two loan programs, and one work-study program in its arsenal of general student assistance, not to mention the specialized types of aid for students going into health professions, law enforcement, and other fields. Many states have a variety of student aid programs as well. There are few signs that Washington is going to cut back on the number of federal programs, though Congress is taking steps to standardize the way financial need is determined under the Title IV programs and to mandate uniform application requirements.

TABLE 4. Federal and State Student Aid by State, FY 1980 (est.)

(in thousands of dollars)

	Total Federal Student Aid	Total State Student Aid	Total Federal and State Student Aid
Alabama	86,915	2,468	89,383
Alaska	1,853	240	2,093
Arizona	45,827	1,800	47,627
Arkansas	36,617	1,104	37,721
California	334,980	83,478	418,458
Colorado	41,484	8,060	49,544
Connecticut	37,488	8,619	46,107
Delaware	7,805	550	8,355
District of Columbia	29,230	1,073	30,303
Florida	129,436	10,400	139,836
Georgia	74,041	3,365	77,406
Hawaii	8,984	452	9,436
Idaho	10,387	494	10,881
Illinois	168,709	74,497	243,206
Indiana	71,831	21,479	93,310
Iowa	44,025	15,302	59,327
Kansas	41,340	4,650	45,990
Kentucky	107,895	5,309	113,204
Louisiana	74,879	872	75,751
Maine	27,110	1,350	28,460
Maryland	57,860	5,554	63,414
Massachusetts	148,171	16,249	164,420
Michigan	137,493	30,192	167,685
Minnesota	83,049	23,631	106,680
Mississippi	66,711	1,109	67,820

TABLE 4. *(Continued)*

(in thousands of dollars)

	Total Federal Student Aid	Total State Student Aid	Total Federal and State Student Aid
Missouri	72,515	9,000	81,515
Montana	13,003	412	13,415
Nebraska	27,646	856	28,502
Nevada	5,240	493	5,733
New Hampshire	19,920	517	20,437
New Jersey	99,810	37,979	137,789
New Mexico	27,928	720	28,648
New York	479,407	274,500	753,907
North Carolina	103,270	6,299	106,569
North Dakota	16,883	543	17,426
Ohio	144,828	30,916	175,744
Oklahoma	53,368	2,265	55,633
Oregon	52,168	5,707	57,875
Pennsylvania	183,721	81,100	264,821
Rhode Island	24,754	4,218	28,972
South Carolina	59,061	10,618	69,679
South Dakota	22,720	420	23,140
Tennessee	83,488	6,200	89,688
Texas	182,791	18,449	201,240
Utah	15,054	1,504	17,358
Vermont	16,592	4,253	20,845
Virginia	69,085	3,782	72,867
Washington	63,301	4,796	68,097
West Virginia	24,559	3,021	27,580
Wisconsin	80,561	20,967	101,528
Wyoming	4,842	251	5,093

Note: The federal portion of the SSIG program is included in the state totals. Available data do not allow accurate separation of the federal SSIG portion from the state portion. Thus state dollars are somewhat overstated (by a total of $77 million) in this table, and federal dollars are understated by the same amount.

Sources: U.S. Department of Education and National Association of State Scholarship and Grant Programs, *11th Annual Survey, 1979-80.*

States with multiple programs or programs that differ significantly from the federal approach also face the question of whether the total system has become too complex and confusing. Complexity can result from the sheer number of programs. Minnesota, for example, has undertaken a year-long study to see if all of its current programs are still necessary in the 1980s. Or complexity can result from state programs that are designed and operated quite differently from their federal and institutional counterparts.

Independent state programs can offer significant advantages as well as possible disadvantages to students. New York, for example, operates a very large Tuition Assistance Program (TAP), providing over $250 million a year in financial assistance. Applicants must complete a special form to apply for TAP, while in other states students can frequently use the same application for state awards and for institutional aid and/or BEOGs. At the same time, the separate New York approach has several virtues: TAP is conceptually a simpler program than most (financial need is based on income alone, without consideration of assets), and the TAP application is comparatively simple and straightforward.

Thus states face significant trade-offs in deciding whether and how to accommodate their programs to federal policies and whether complexity in the system benefits or hurts students.

Are federal programs "fair" to states? There is tremendous diversity among states in the nature of

their postsecondary systems and in the patterns of postsecondary finance. Given this diversity, it is not surprising that questions frequently arise about whether federal policies treat different states in an equitable manner.

In the SSIG program, for example, federal dollars are allocated to states on the bases of headcount enrollment and the growth in state expenditures since a base year (no earlier than 1971-72, though later for states whose programs were created later). Officials in states with older programs that had attained significant size before their base year frequently believe that they are not given appropriate credit for the efforts they made even before creation of a federal incentive system.

In the BEOG program, students can currently receive maximum grants of $1,800 or one-half of their educational costs, whichever is less. Some officials in low-tuition states feel that their low-tuition policies result in unfair penalties, with high-tuition states reaping more BEOG money.

In the so-called campus-based programs,[17] federal funds are divided among states primarily on the basis of enrollment and then within states among institutions on the basis of so-called fair-share formulas. These formulas calculate the financial need of students at each institution, after other forms of assistance are taken into account. Because students in some states may, on average, be poorer than students in other states, enrollment-based state allocation procedures may be more disadvantageous to the poor than would interstate allocations made on the basis of financial need.

State choices about how to finance postsecondary education and how much money to provide can, therefore, influence the amount of federal student aid coming to the state. Especially in the heavily subsidized public sector, states have to balance their interests in keeping tuitions low for all students against their interests in raising tuitions in order to capture the additional federal aid for which some students would then qualify. The cost of the latter approach, however, is higher real fees for those students who are not eligible for federal assistance.

State Responses

The magnitude of federal student assistance has clearly affected state aid programs, particularly in the grant area.

Coordination with Federal Programs. The most frequent response of states to the growth in federal student aid has been an adjustment in state programs so that federal and state aid are coordinated in some way. Methods of coordination are diverse.

Initial evidence on the ways states have found to coordinate their own and federal efforts comes from an informal survey the College Board conducted in 1978, to which 34 state student-aid agency directors responded. Most of the states providing information appeared to have some kind of limit on the amount of aid a student could receive from a combination of BEOG and state grants. It was not clear, however, whether all of the limits reflected conscious consideration of the combined effects of BEOG and state grants or whether some were merely the maxima that resulted from quite separate decisions about maximum grant levels in the different programs.

Nine states reported that they imposed "absolute dollar" limits on the awards students could receive from BEOG and state grants.

- Three of these states made uniform awards; their limits were the flat value of their grants added to the maximum BEOG.
- Five states reported that the absolute dollar limit was the maximum state grant plus the maximum BEOG.
- Wisconsin reported an absolute dollar limit of $2,075 at University of Wisconsin institutions and $1,870 at vocational institutions.

Maine, Minnesota, and Oregon indicated that they limited the sum of BEOG and state awards to some preset proportion of need (50, 75, and 50 percent, respectively). Five states limited the combination of BEOG and state grants to 100 percent of need.

Several other states have developed unique ways of coordinating awards:

- In New Hampshire, total basic resources, self-help, and state grants could not exceed costs.
- In New Jersey, the family contribution, BEOG, and New Jersey grant could not exceed 85 percent of the cost of education as approved by the federal government for the BEOG program.
- In North Carolina, state grants equaled half of need after family contributions, self-help, and BEOGs were considered.

17. The so-called campus-based or institutionally administered federal programs are the Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs.

- Pennsylvania limited its state awards to the least of one-third of need, 80 percent of tuition, $1,500 at in-state institutions, or $600 at out-of-state, with need determined *after* BEOG eligibility was considered as a resource.
- In Vermont, the maximum a student could receive from parents, BEOG, and state grants was the lesser of $1,650 or of 55 percent of tuition, fees, room, and board.

Eight states reported no limits on combinations of BEOG and state grants. However, in two of these states, institutions determined the amounts of state awards and, at a minimum, presumably restricted the combination of awards to need.

Additional evidence about coordination comes from a recent survey of state grant programs by the National Association of State Scholarship and Grant Programs. That group reports that 26 states and the District of Columbia calculate the expected BEOG for which each state grant applicant is eligible and add it to the student's resources before making a state award.[18]

Yet another kind of coordination, affecting application procedures rather than grant levels, is made possible by the Multiple Data Entry (MDE) system in the BEOG program. Through MDE, state and private agencies can simultaneously collect from students the financial information needed for determining BEOG eligibility and whatever information is needed by state and institutional aid administrators. MDE processor agencies, of which there are currently three (American College Testing Program, College Scholarship Service, and the Pennsylvania Higher Education Assistance Authority), extract from the financial aid application forms they receive the data needed by the BEOG program and forward the data by means of computer to the nationwide BEOG processing agency. For students, MDE has meant a reduction in the number of application forms they must complete to apply for various financial aid programs. Many states and institutions use the American College Testing Program and/or College Scholarship Service forms in their own financial aid programs, and the Pennsylvania agency form serves as an application for that state's grant program as well.

Expansion of State Aid. Some states have responded to the growth of federal student aid by making parallel changes in their own assistance programs. Over the years federal expenditures have grown for two reasons: federal policymakers have increased the maximum awards made to individuals, and they have extended eligibility to new groups of students. Similar changes have taken place in some state programs.

In at least one instance, a change in state policy was mandated by the federal government. In 1972, Congress made students in all sectors of postsecondary education eligible for all federal student aid programs, and in 1976 it decreed that within a few years state grant programs would have to be open to students in all nonprofit institutions to be eligible for State Student Incentive Grant matching funds. This provision caused serious problems in a few states that had constitutional or statutory prohibitions against giving public funds directly or indirectly to certain kinds of schools (for example, church-related colleges). It was never enforced and was repealed by Congress in the 1980 reauthorization of the Higher Education Act. Nevertheless, while it was on the books, some states did change their programs to bring them into compliance.

The federal government also attempted to increase state spending on student aid through SSIG, which was intended to encourage the creation and expansion of state grant programs. SSIG has not been the major reason behind the enormous growth in state spending in the last decade, but clearly it has had some effect.[19]

For the most part, however, state grant expansion has been influenced by the same considerations that influenced federal increases. As college costs have risen, state officials have increased the size of awards in an attempt to keep real levels of aid about the same. Thanks to a broadening view in society about the nature of postsecondary education, the federal government had by 1972 extended eligibility for federal programs to half-time as well as full-time students and to students in proprietary and certain kinds of vocational schools; many states have done likewise. A rising concern over the ability of middle-income families to finance higher education led Congress in the Middle-Income Student Assistance Act of 1978 to extend BEOG eligibility to families earning as much as $30,000. Some state legislatures responded to the same concern by extending eligibility for state programs up the income scale.

Creation of No-Need Awards. There has been a quickening of interest in so-called no-need awards sponsored by state governments. Some states have made such awards, based on academic merit rather

18. National Association of State Scholarship and Grant Programs, *11th Annual Survey, 1979-80.*
19. See Janet S. Hansen, *The State Student Incentive Grant Program: An Assessment of the Record and Options for the Future.* New York: The College Board, 1979.

than financial need, for many years; others, such as Maryland and Michigan, have created new merit-based programs only recently.

State officials offer a number of reasons for launching no-need scholarship programs. With the federal government meeting so much of the financial need of low-income and (more recently) middle-income students, state policymakers may feel that they can use state funds to achieve different goals, such as recognizing academic accomplishment. Some state officials hope to keep the state's most talented students at local rather than out-of-state institutions by offering them prestigious and lucrative awards. Some states also share the feelings of some parents that the financial aid system has become too heavily weighted toward meeting financial need rather than rewarding academic excellence, which was the traditional purpose of most scholarships.

Cutbacks. The expansion of federal student aid has caused some states to decide that they could cut back on their own assistance programs. Colorado, for example, where legislators adopted an expenditure limitation in 1977, reduced its funding of need-based grants by about 20 percent in 1979-80, after a legislative review of need-based aid in surrounding states. Colorado expected the cut in its own funds to be made up by increases in federal funds, especially in BEOGs. In 1979-80, Wisconsin reduced funding for the Higher Education Grant program (which aids students in the public sector) in anticipation of increased BEOG allocations as a result of the Middle-Income Student Assistance Act.

Shift in Focus to Private Sector. Rather than curtail their state grant programs in response to increases in federal funding, some states may shift their attention to meeting the needs of students in more expensive private colleges and universities. (Other states, such as California and New York, have always viewed their state aid programs as designed at least in part to help the private sector.) Wisconsin did just this, increasing appropriations for the Tuition Grant program that aids students in nonpublic institutions at the same time it cut back funds for public sector Higher Education Grants. Other states are beginning to talk about the need to insure student choice between public and private institutions now that the federal government has virtually guaranteed student access to at least a low-tuition public school through a combination of BEOG, SEOG, and other aid.

Tuition Increases? An oft-mentioned but so far unsubstantiated concern is that states will try to capture federal student aid money by increasing public sector tuitions, thereby increasing student eligibility for federal assistance. Concern centers on public institutions because, under current BEOG funding levels, most private college tuitions are already high enough to qualify students for the maximum grant (if they have no other financial resources). The half-cost provision in BEOG, which limits grants to one-half the student's costs of attendance, does mean that low-income, high-need students in low-tuition colleges may get lower BEOGs than they would if tuition were higher. For states, the issue is whether they or the federal government should subsidize these low tuitions.

Our own research[20] and other available evidence suggest that to date federal student aid has not been a major factor in state decisions to raise tuition. The availability of this aid has certainly cushioned the political impact of such decisions, but increases have been primarily the result of other considerations.

The question is not moot, however. As federal programs have grown older and larger, their presence has inevitably become more widely known at the state level. We hear anecdotal reports that state budget officials are asking more questions than they used to about the amount of federal student aid coming into the states. Whether such questions will lead to decisions about tuition levels that are more heavily influenced by the availability of student assistance funds is hard to forecast. Such a linkage would have some potentially serious repercussions. Congressional champions of student aid have already shown sensitivity about the prospect that states might raise tuition to capture federal funds and would surely react negatively to any concrete evidence of this. Moreover, so long as BEOG is restricted to meeting less than 100 percent of a student's educational costs, aid recipients would suffer a real net increase in their costs from any tuition increase. Non-aided students, of course, would have to meet the entire amount of the increase from their own resources, or from increased borrowing.

Changing Features of the Federal/State Partnership

The federal/state relationship in student aid is constantly shifting as new circumstances arise. States need to be aware of several developments that will influence the nature of the partnership in the next few years.

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20. See, for example, Seth P. Brunner and Lawrence E. Gladieux, *Student Aid and Tuition in Washington State: A Case Study of Federal-State Interaction*. New York: The College Board, 1979.

Enrollment Shifts. With the number of students in the traditional college-going age bracket about to begin a decade-long decline, all of higher education is bracing for as yet unknown but widely feared effects. Individual states will probably feel the effects of this overall decline in quite diverse ways: some may see enrollments in postsecondary education decline drastically, others may see only small declines, and still others (especially in areas of population growth and/or with strong educational interests among adults) may even see increases.

Since federal student aid is either distributed directly to students or allocated among states partly on the basis of enrollment, these shifts could have a dramatic effect on the interstate allocation of federal dollars. State officials may be more aware than ever of the provisions made for allocating formula-based federal funds and for determining the student aid eligibility of the new kinds of students (older, more part-time) who are making up an increasing proportion of postsecondary enrollments. There will probably be more tension than usual over student aid, between the federal government and the states, and among the states severally, as policymakers try to accommodate diverse state interests.

Reauthorization of the Higher Education Act. Renewal of the legislation authorizing federal student aid programs in 1980 raises some new uncertainties for states. Expanded authorizations for the campus-based programs, plus increases in the BEOG 50 percent-of-cost limit to 70 percent over a five-year period, might suggest that more federal money will be available for students. But budgetary constraints could override the effects of changes in the authorizing legislation.

Even less clear are the effects that new federal provisions about application forms and about financial need analysis will have on state programs. The 1980 amendments to the Higher Education Act call for a single application form and a single financial-need analysis system to determine eligibility for assistance in most of the major federal aid programs. The exceptions, significantly, are State Student Incentive Grants (administered by states) and Guaranteed Student Loans (administered primarily by banks). Despite the formal exemption of state programs, the new federal system will raise some serious questions for states.

Multiple Data Entry now allows states to combine items needed for their own and federal programs on the same form, or at least on a basic and supplemental form distributed together. Some state grant agency directors fear that a federally mandated application will preclude states from adding their own information or questions. Consequently, states could feel forced to change their own programs so they can operate with the federal form, or they could revert to a completely separate application, causing more work for students. The flexibility with which the U.S. Department of Education implements the single-form requirement will have a great deal to do with how easily states can accommodate to it.

Behind much of the concern over the federal form and the fear that states may be pressured into using it, is the worry that states may then be forced to use a financial-need analysis system that depends only on those data the federal government chooses to collect. This seemingly technical point has in fact major policy implications, for the kinds of information collected from applicants helps to determine who is considered needy and who is not. The federal government has taken an increasingly generous view of student financial need and became even more generous in 1980. One reauthorization change, for example, is to eliminate home equity from consideration when calculating a family's ability to pay for college.

The importance of this debate for states is twofold. First, if states (willingly or unwillingly) adopt the federal financial-need analysis system for their own, they may find themselves extending aid eligibility to large numbers of new students who were formerly considered unqualified. Second, states may find themselves under pressure to adopt the federal guidelines, because parents and students have a hard time understanding how one level of government can declare them in need of financial assistance while another says they are not.

Finally, a perennial issue raised anew by reauthorization is the role played by state loan agencies. Even though the Guaranteed Student Loan program will continue, changes authorized in the National Direct Student Loan program could significantly diminish the role of guaranteed loans (and therefore of state agencies) in the overall system of student financial aid.

Federal Funds and State Prerogatives

We have said that federal dollars supplement the basic support of higher education provided from state and private sources, and that the objectives of federal policy are implemented primarily through students and to some extent institutions, not formally or substantially through the states. We conclude with a comment on budgetary constraints and the problems of fiscal federalism in higher education.

The Federal Budgetary Outlook

The preceding section discussed stresses and strains in the student financial aid system, following a decade in which the largest force for change has been federal budgetary growth. Now a major question mark hangs over the budget process in Washington. Under the new Administration and the 97th Congress there may be unprecedented pressures to balance the federal budget as a way to combat inflation, and, during a time of apparent international danger, defense needs may take priority over domestic social programs. Whether the federal commitment to higher education will continue to expand at the rate it recently has is in doubt.

The federal investment in university research could show signs of new growth. The need for solutions to national problems, such as energy, along with concerns about the economy's lagging productivity, may help to boost research and development funding in coming years.

However, the outlook is cloudier for student financial aid. Even though Congress authorized more generous student benefits when it renewed the Higher Education Act in 1980, the reality of budgets may not match the promise of the legislation. The federal government will undoubtedly continue to focus on equalizing opportunity for individual students, and the BEOG program will persist, in the words of one university leader, as "a powerful driving force in maintaining enrollment levels" in both public and private institutions.[21] But state policymakers would be wise not to premise their decisions about higher education finance on additional federal monies for students. The dollars will still flow, but the rate of growth and the strength of the federal budgetary commitment in the 1980s remain to be seen.

As college costs rise, will federal student aid keep up, or will states have to spend more to maintain current levels of real assistance? Will federal policymakers continue and/or expand their aid to middle-income students? If federal spending cuts are made, will low-income students be given priority or will aid be spread over as many students as possible? Will college-tuition tax credits be enacted and, if so, will they in time supplant direct aid to students based on need? The answers to such questions will have implications for states as they frame their own student aid policies in the 1980s.

A fact likely to aggravate the budgetary condition in student aid is the rapid growth in mandatory costs of the Guaranteed Student Loan program. The loans are now heavily subsidized, particularly since the explosion of interest rates beginning in late 1978. Students pay no interest during school years (and, if they began borrowing before 1981, students pay only 7 percent during the repayment period) and the federal government pays participating banks a special allowance that fluctuates with the going rate of interest. Moreover, the Middle-Income Student Assistance Act made all students eligible, regardless of family income. The more students borrow and banks lend under the program, the more federal costs grow. These costs, likely to exceed $2 billion in fiscal 1981, have almost quadrupled in the past three years.

Will grant programs based on financial need suffer in the years ahead because of the budgetary drain into subsidized loans, which are not based on financial need? Despite the increase in the GSL interest rate to 9 percent for new borrowers beginning in 1981, will tight money conditions continue to force federal loan subsidy costs higher? Will federal benefits start shifting from low and moderate to higher income students if loan spending continues to grow? An illustration of the potential trade-off is already at hand. In the summer of 1980, Congress accepted an Administration proposal to cut $140 million out of the BEOG program in the 1980-81 academic year, a reduction which the Administration and other proponents justified in part

21. William Friday, quoted in *The Report of the Sloan Commission on Government and Higher Education, An Overview*. New York: Alfred P. Sloan Foundation, 1980, p. 40.

by pointing to the $650 million supplemental (and nondiscretionary) appropriation for Guaranteed Student Loans.

Federal budget constraints will affect the states in many other areas, too. Congress has threatened, for example, to reduce or eliminate the $2.3 billion states have received under revenue sharing, much of which the states have been using for education.

Fiscal Control and the Issue of Reappropriation

Traditionally, individual states have looked for ways to increase their intake of federal funds to help finance education and other social services. With the balances in many state treasuries declining and the economic recession deepening, states will no doubt be looking even harder to increase federal support. But, in the area of higher education, states have little direct leverage on federal spending patterns. There are few levers and there are trade-offs in using them. For example, because of the half-cost limit in BEOG, state officials can increase BEOG awards to significant numbers of students in public colleges—but only if officials are willing to raise undergraduate tuition across-the-board.

Maximizing federal dollars, however, is not the only concern of the states these days. Some state legislatures have come to believe that they lack the ability to control or even monitor the vast array of federal programs that funnel monies into their borders. With federal aid constituting an increasing share of state budgets (over 25 percent in some states), state legislators have begun to question whether the purposes, categories, matching, and other requirements of federal support have distorted state priorities and imposed liabilities on the states. There have been proposals to institute legislative oversight and review of incoming federal funds. In one state, Pennsylvania, the legislature has asserted the power to "reappropriate" federal monies allocated to the state. A law is on the books giving the Pennsylvania General Assembly in effect a line-by-line veto over federal funds.

This is not the place for a discussion of the complicated constitutional and legal issues involved in reappropriation. The Pennsylvania measure has already been a subject of extensive litigation, and the general issue—the control of federal funds within state borders—could be back in the courts in coming years. The question here is the potential effect of reappropriation on funding for higher education—for students as well as for institutions, academic programs, and individual faculty members. Frustration with the complexities and distortions of intergovernmental aid is understandable; that state legislatures are beginning to take initiatives is not surprising. But in the case of federal aid for higher education, state legislative restrictions may have unintended consequences. Depending upon how the oversight or review process is structured, legislative mechanics and timing could effectively if inadvertently deny benefits to individuals or institutions. Though the Pennsylvania General Assembly has not yet rejected an incoming federal grant, delay under the reappropriation procedure has, in fact, cost Pennsylvania state colleges sizable federal grants in two cases so far.

The National Conference of State Legislatures Fiscal Affairs and Oversight Committee has recommended that certain types of federal funds be exempted from state legislative oversight, including transfer payments to individuals (which would presumably cover student aid) and research grants to individuals and institutions of higher education.[22] Student assistance is at the heart of equal access and opportunity for individuals and the timing of such assistance is critical. State legislatures should take care not to jeopardize federal student aid funds by the imposition of a pro forma review process. Research support to higher education institutions and faculty members is also appropriately exempted or otherwise treated specially, linked as it is to national research agendas and policy objectives.

The Status of Education in the Federal Establishment

A final word is in order on the potential significance of the administrative restructuring of education programs in Washington. Education has recently been elevated to cabinet status in the executive branch, only to face reappraisal and possible reshuffling once again under a newly elected Administration.

Realism should temper expectations for consolidating or "rationalizing" federal activities in education through bureaucratic reorganization.

We have noted that the new U.S. Department of Education houses only a portion of the myriad programs, budgets, and employees concerned with education throughout the federal establishment. It is clear that the department is not in a position to bring about a single, coherent set of federal policies, nor will it be able to streamline regulatory and funding practices affecting education that stem from diverse federal laws and agencies. Change in

22. "State Legislative Oversight of Federal Funds: Preliminary Report and Suggested Activities," Typescript report of the Fiscal Affairs and Oversight Committee, National Conference of State Legislatures, Denver, July 24, 1979.

the regulatory arena (even under a national Administration committed broadly to "deregulation") is like to be incremental, not dramatic.

The statute creating the department includes language disclaiming any federal intent to usurp state responsibility for education, and it further establishes an Intergovernmental Advisory Council on Education. The latter has modest potential to upgrade federal-state interchange on policies in education. On balance, however, the new structure and status for education in Washington are not apt substantially to alter intergovernmental relations in financing and governing education.

Whatever the future of the new department and however it might be reorganized by a new Administration, a continued pattern of decentralized, fragmented support is likely to characterize federal involvement in higher education. Such support is certainly untidy and not without its headaches for states and institutions. But the pattern serves a multitude of national purposes, and it better serves to protect academic independence and diversity than would a monolithic national policy or plan.